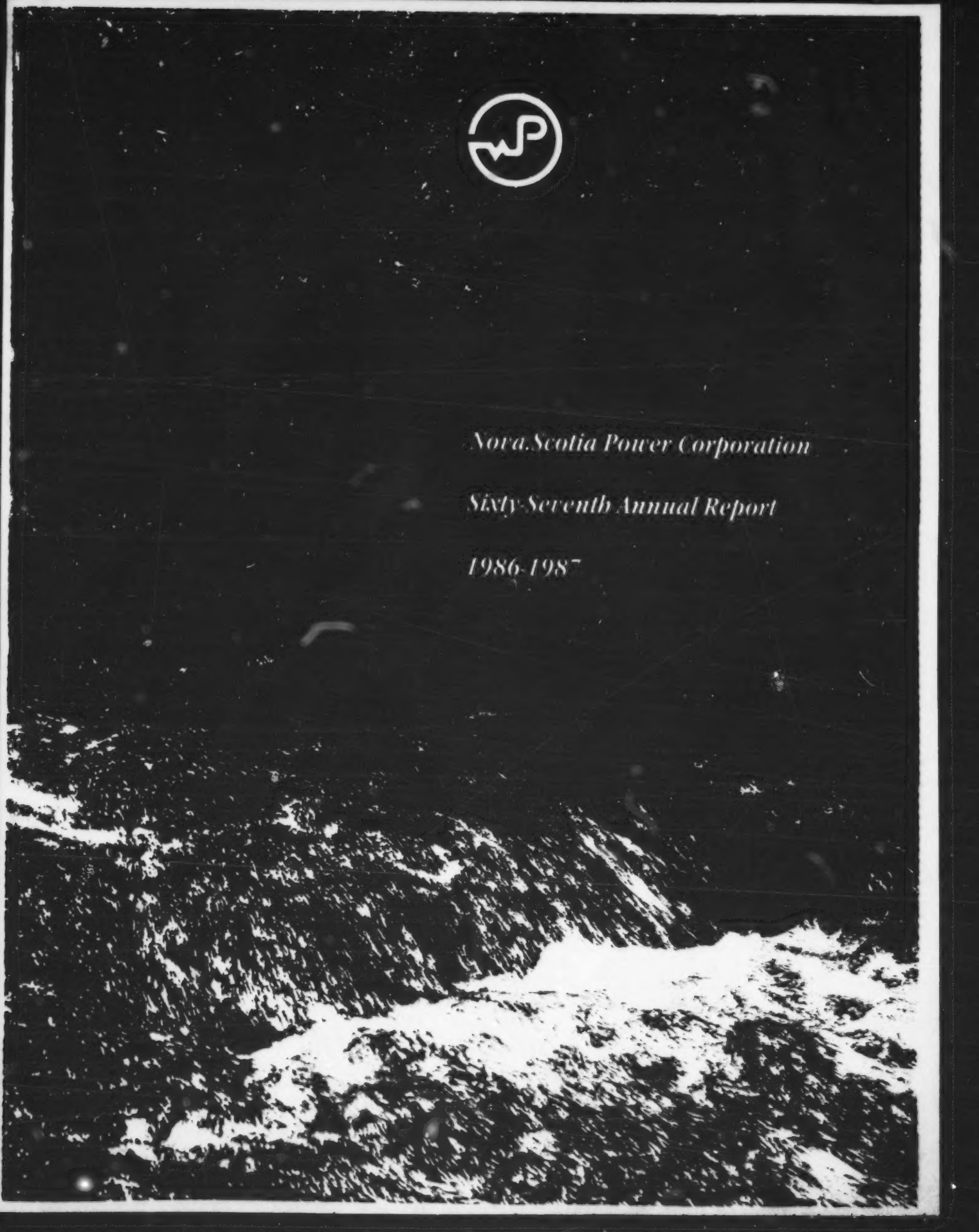

Nova Scotia Power Corporation

Sixty-Seventh Annual Report

1986-1987

92-02653/

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LETTER OF TRANSMITTAL

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His Honour
The Right Honourable Alan Abraham
Lieutenant-Governor of Nova Scotia

Dear Sir:

I have the honour to submit herewith the sixty-seventh Annual Report of the Nova Scotia Power Corporation, together with financial statements for the fiscal year ended March 31, 1987.

During the past year the Corporation continued to work hard to meet the needs of our customers.

Work was undertaken in all parts of the Province to augment system reliability and customer service.

Power Corporation people share with other Nova Scotians a belief that Nova Scotia is and must always be a good place to live and work; the past year was marked by a further strengthening of our efforts to protect and enhance the environment of our Province.

Since the completion of the fiscal year, the Corporation was gratified by the confidence shown in the Corporation by the ready acceptance of the second annual issue of Nova Scotia Power Savings Bonds.

The Nova Scotia Power Corporation and all its employees remain committed to our goal of providing reliable electric service to our customers, the people of Nova Scotia.

Joseph A. F. Macdonald, QC
Chairman

The Corporation's operating loss of $9,277,000, which represents a difference of less than 2 percent between revenue and expenses, is less than anticipated and less, by some $3 million, than last year's deficit.

This result, in view of the fact that, for the fourth consecutive year, electric service rates remained unchanged, is evidence of the Corporation's objective to provide Nova Scotians with reliable service at the lowest possible cost.

This operating loss has been offset by our Rate Stabilization Reserve. This reserve now stands at $15,164,000 and with anticipated increases in operating costs in ensuing years, the Corporation is addressing methods of increasing revenue, but at the same time minimizing the impact to our customers.

Financial Self-Sufficiency

Crown corporations should be self-sufficient — that is, they should be run as an efficient business operation and any profits and/or dividends should be passed on to the customer.

For the second consecutive year the Corporation and its customers received no financial assistance directly or indirectly from the Province of Nova Scotia.

In addition to fulfilling a previously stated goal, this achievement has enhanced our relationship with the financial community.

Consumers' confidence in their utility is further evidenced by the tremendous success of Nova Scotia Power Corporation Savings Bonds. Nova Scotians obviously welcomed the opportunity to invest in their utility and they will see their dollars at work through new generating facilities, new power lines, upgraded facilities and environmental enhancement projects.

Environment

We are highly cognizant of the fact that we must protect our environment. This awareness is outlined in this report and is further evidenced by the fact that the Corporation is spending approximately $10 million annually for environment associated projects.

In 1977, NSPC had one person on staff committed to environmental work. Today we have 11 employees dedicated to environmental activities in the Corporation, including Thermal Production and Environmental Policy and Programs.

We will continue to operate the utility in a cost-effective, efficient manner and at the same time be compatible with the environment.

At the same time the Corporation's utilization of state-of-the-art technology for the overall benefit of its customers continues. Our new Provincial Energy Control Center will open in the Fall of 1987; our research into the use of environmentally-sound Fluidized Bed Combustion continues.

Historically, NSPC has been a leader in employing high tech equipment in its substations, communication links and in engineering design and adaptation. Our use of technology has been a factor in our increased productivity.

The most recent study of our productivity has indicated that, using 1985/86 dollars as a base, the 1981/82 cost per kilowatt hour sold was 8.13 cents and for 1986/87 that cost is down to 6.95 cents. This is an improvement of 14.9 percent and continuing gains are expected.

The Future

We are relentlessly pursuing previously stated plans to export Nova Scotia generated electricity to the eastern United States.

The benefits of such a program, using Nova Scotia coal as the generation fuel, cannot be overstated, and I am optimistic that in the next year positive steps will be taken to bring this program closer to fruition.

As part of our development mandate we have examined the potential of private investment in the construction of generation stations, with NSPC purchasing the output for distribution to its customers.

At the present time, based upon inquiries, submissions and reviews, it appears that private development offers no substantial benefit to Nova Scotia consumers. However, we will continue to explore this option.

Electricity use continues to grow in Nova Scotia and the total-end use demand for electricity is expected to increase at a greater rate than other energy forms over the next 20 years.

In 1984 the electricity component amounted to 23.5 trillion BTU. This is anticipated to more than double — to 49.3 trillion BTU by 2005, and it is a logical progression for Nova Scotia, given the use of indigenous fuel to generate our product.

I am extremely pleased with what we have accomplished in meeting the needs of this province and our program of future service enhancements will continue.

Your utility, I feel, has a strong team of Directors, Officers and Employees who are dedicated to serving the needs of Nova Scotians in a highly professional manner.

Our customers have high expectations of their utility — and rightly so. We will work hard to fulfill these expectations.

Louis R. Comeau
President and Chief Executive Officer

CORPORATE INFORMATION

BOARD OF DIRECTORS

STANDING, L TO R:

ROBERT A. DAMERY, BRIDGEWATER;
G. JAMES MCCULLOCH, HALIFAX;
CECIL S. SMITH, LIVERPOOL;
ALLAN F. BRUCE, TRURO;
G. DOUGLAS MACDONALD, NEW GLASGOW;
JAMES G. MACDONALD, SYDNEY

SEATED, L TO R:

BUSTER L. WOODWORTH, WOLFVILLE;
JOHN C. KEATING, DARTMOUTH;
M. BARBARA WALKER, HALIFAX;
J. A. F. MACDONALD, QC, CHAIRMAN, HALIFAX;
LOUIS R. COMEAU, HALIFAX

MISSING:

C. J. (JAKE) CREIGHTON, DARTMOUTH

COMMITTEES OF THE BOARD OF DIRECTORS

Audit Committee

C. S. Smith, *Chairman*
A. F. Bruce
J. C. Keating
G. J. McCulloch
R. C. Fraser, *Secretary*
L. R. Comeau, *Ex Officio*

Compensation Committee

G. J. McCulloch, *Chairman*
A. F. Bruce
R. A. Damery
J. G. MacDonald
L. R. Comeau, *Ex Officio*

Centennial Scholarship Selection Committee

A. F. Bruce, *Chairman*
L. R. Comeau, *Ex Officio*

Pension Committee

J. A. F. Macdonald, QC, *Chairman*
C. J. Creighton
Miss M. B. Walker
R. C. Fraser
W. L. Fraser
L. R. Comeau, *Ex Officio*

OFFICERS

L. R. Comeau
President and
Chief Executive Officer

R. C. Fraser
Vice-President and
Chief Financial Officer
(Retiring June 1, 1987)

D. G. Brown
Vice-President,
Planning
(Retiring April 1, 1987)

L. J. Sweett
Vice-President,
Customer Services

W. L. Fraser
Vice-President,
Personnel and
Corporate Services

G. D. Lethbridge
Vice-President,
Engineering and
Production

T. F. MacDonald
Vice-President,
Planning
(Effective April 8, 1987)

R. J. Smith
Secretary and
Senior Solicitor
(Effective April 8, 1987)

AUDITORS

KPMG Peat Marwick,
Halifax

BANKERS

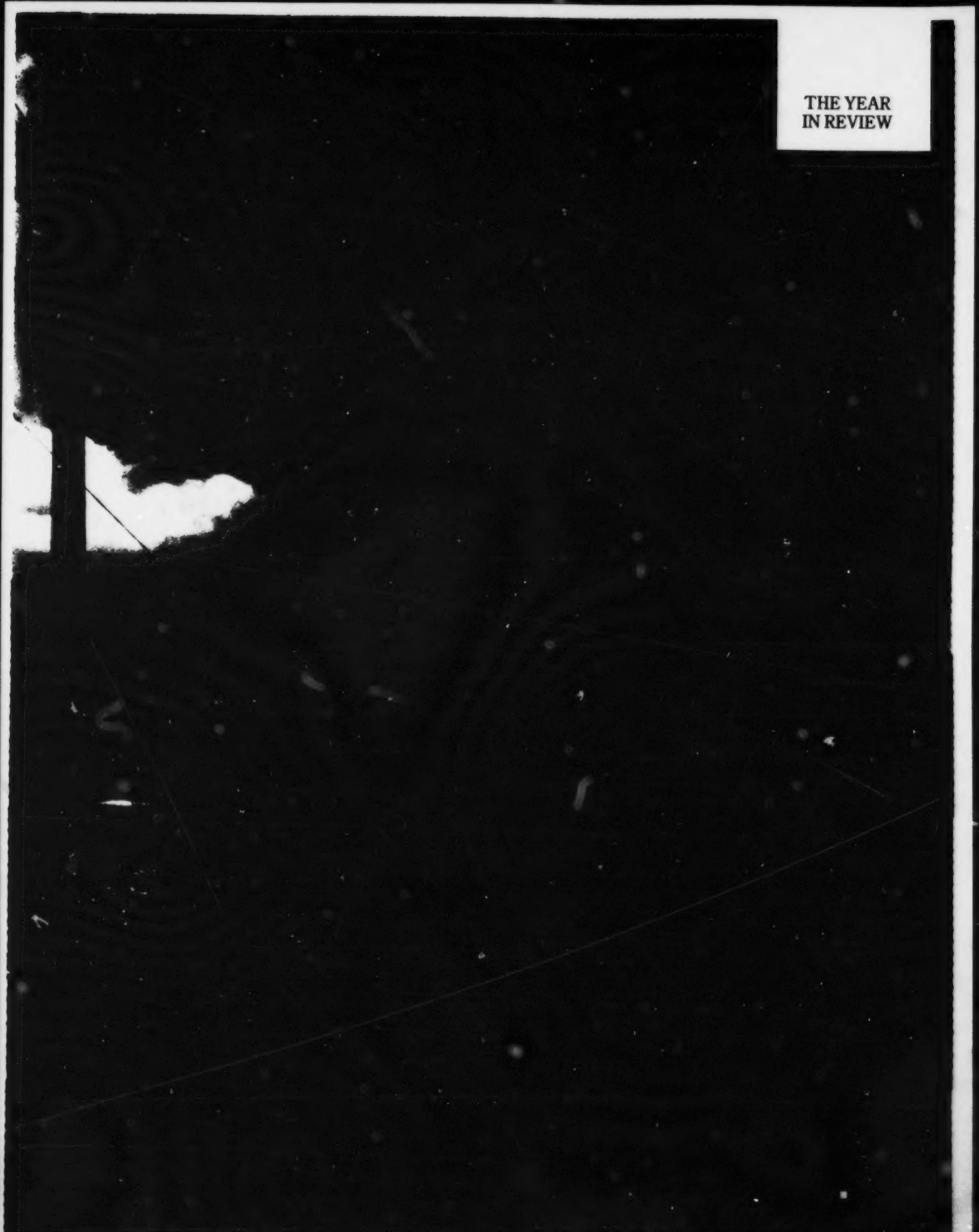
Bank of Nova Scotia
Royal Bank of Canada

SOLICITORS

Cox, Downie &
Goodfellow, Halifax

TRANSFER AGENT AND REGISTRAR

Banking and Corporate
Trust Dept.,
Nova Scotia Power
Corporation



THE YEAR IN REVIEW

OUR ENVIRONMENT

It is our objective to be considerate of the protection of the natural environment in all areas of our activities, and to this end, we are achieving considerable success.

We have developed an environmental impact assessment process to identify and address all issues at the start of a project, rather than mitigate when problems appear after an operation starts.

Our commitment to the environment has been manifested by both capital, operational and policy undertakings.

▶ AIR MONITORING STATIONS AT VARIOUS LOCATIONS PROVIDE INSTANTANEOUS DATA ON AIR QUALITY AND EMISSIONS.

▲ CONCERN FOR OUR WILDLIFE PROMPTED THE CORPORATION TO IMPLEMENT THE OSPREY NEST RELOCATION PROGRAM WHICH HAS DRAWN NATIONAL ATTENTION.

Generation

State-of-the-art monitoring equipment has been installed at our Tufts Cove Generating Station, along with a boiler additive system, and new burner equipment for improved emission control. A new precipitator field was installed at our Trenton plant, and air quality studies were commenced at sites of current and proposed thermal stations.

In addition, the Corporation is continuing its leadership role in the development of environmentally-compatible Circulating Fluidized Bed Combustion on a commercial basis.

PCB Management

Considerable progress has been made in the management of polychlorinated biphenyls (PCBs).

A procedure is in place to burn mineral oils contaminated with less than 50 parts per million (ppm) of PCBs.

For oils contaminated with more than 50 ppm, a decontamination process was initiated, allowing the treated oil to be re-used. Last year a total of 141,736 litres of contaminated oil were treated at five locations in the province. This program will

proceed for five to seven years, on a priority basis, until all contaminated inventories have been treated.

A program to remove all concentrated PCB equipment is proceeding, and our objective is to have it all removed from the system by mid 1988.

▲
ONE OF THE MANY FISH LADDERS THAT NOVA SCOTIA POWER HAS INSTALLED THROUGHOUT THE PROVINCE TO BENEFIT OUR NATIVE FISH.

Aquatic Environment

Concern for the aquatic environment has resulted in the implementation of a variety of fish protection measures designed to benefit important species such as Atlantic salmon, gaspereau, and striped bass. They include: upstream/downstream fish ladders, downstream fishways or fish bypasses, and guaranteed minimum flow of water in specified rivers below dams or other facilities.

We have regularly consulted with the Federal Department of Fisheries and Oceans, the Nova Scotia Department of Environment, and other government agencies to ensure that these fish protection measures are properly implemented and evaluated.

We have also co-operated with government agencies and private companies in programs such as fish stocking and research through the provision of facilities.

The development of some facilities requires a certain amount of post-project environmental mitigation. Such is the case at the Annapolis Tidal Power Station. Tidal

Concern for the aquatic environment has resulted in the implementation of a variety of fish protection measures

▶
WE REGULARLY CONSULT WITH THE APPROPRIATE AGENCIES TO ENSURE THAT FISH PROTECTION MEASURES ARE PROPERLY IMPLEMENTED AND EVALUATED.

▲
AS PART OF OUR BRUSH CONTROL PROGRAM, VEGETATION WHICH IS COMPATIBLE WITH THE ENVIRONMENT IS BEING PROMOTED.

Power Corporation and NSPC have worked together to identify and define the fish-related concerns.

Over the past two years, the nature and extent of turbine impact on American shad have been outlined. This summer and fall, NSPC and TPC are co-sponsoring a major study to develop and test measures designed to improve fish passage at the site. Light and sound devices will be tested as both fish attractants and deterrents for adult and juvenile shad, alewife, herring, striped bass, and other species.

We are also evaluating opportunities, where practical, to improve the efficiency of downstream fish passage at other sites.

We will continue our efforts to operate our hydro generation stations with minimum practicable impact on the environment.

Vegetation compatible with transmission lines is being promoted. This new vegetation is enhancing wildlife development.

Brush Control

We have been carefully monitoring our brush control program over the past three years.

Those transmission lines under brush control management have revealed the elimination of 95% of the vegetation which is incompatible with the maintenance of the lines. Instead, vegetation compatible with transmission lines is being promoted. This new vegetation is enhancing wildlife development as each species can find its best habitat in the variety of vegetation that exists at the edge of the forests.

Our Objective

We will continue in our efforts to fulfill our objective in all areas of our operation, because environment is important to us and is important in our overall objective of being sensitive to our customer's needs.

ENERGY NEEDS

Nova Scotia's indigenous resources continued to be the dominant source of electrical energy during the past year.

Nova Scotia coal and our water resources accounted for 81 percent of our energy requirement of 7,723,096,804 kilowatt hours, with our coal-fired generating stations supplying 69.4 percent of our needs.

The Lingan generating station, the Corporation's largest, accounted for almost 4.3 million kilowatt hours.

While use of oil increased during the past year as compared with 1985-86 (11.8 percent vs. 7.7 percent) to meet load growth, this trend will be reversed with the completion of the conversion of the 150-megawatt Point Tupper No. 2 unit from oil to coal-fired. This unit is scheduled for commissioning in October, 1987.

Additionally, work was carried out to upgrade existing hydro plants, including Upper Lake Falls, Tusket, Deep Brook and Sheet Harbour.

To facilitate the efficient and economic delivery of power throughout the province, a new Energy Control Centre is being constructed at the Halifax Industrial Park at Ragged Lake. This centre will go into operation in late summer of 1987.

To enhance and upgrade our delivery system, transmission line and substation additions were constructed between Milton, Queens County and Tusket, Yarmouth County; between Victoria Junction and River Ryan, Cape Breton County; between Aberdeen and Whycocomagh, Victoria County; and at the Aerotech Industrial Park, Halifax County.

OUR CUSTOMERS

We have continued, in a tangible way, to enhance our customer commitment.

New and refurbished customer service outlets in several locations are providing improved service to our customers. The installation of computer terminals in our field offices has been beneficial in providing customers with timely information, and accordingly, better service.

To distribute power throughout the province, the Corporation invested $38.9 million to improve and upgrade services to existing and new customers, through the installation of new lines, poles, transformers and associated equipment. These capital improvements took place in literally all areas of Nova Scotia.

▶ CARE IS TAKEN IN THE PLACEMENT OF POLES TO REDUCE IMPACT ON THE NATURAL SURROUNDINGS.

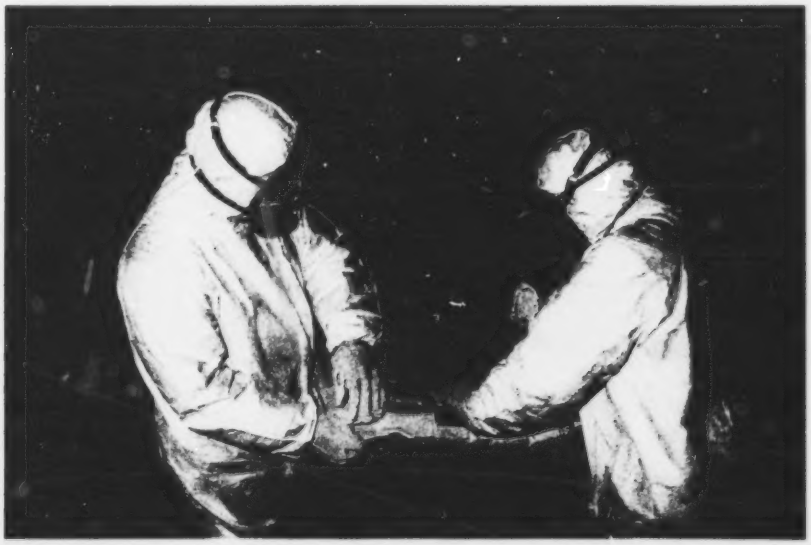
Our customer-oriented research projects — time-of-use, water heater load management, plenum heating, etc. — continue to show positive results due in no small part to the high level of co-operation from our customers in all classes.

Last year, the Corporation's accident frequency and severity rates were the lowest achieved to date.

OUR EMPLOYEES

The contribution made by our employees to the betterment of this province, directly and indirectly, cannot be overstated.

NSPC employees continue to play an active role in community organizations across the province. This community awareness is further emphasized by employees' charitable contributions of over $55,000 for distribution throughout Nova Scotia.



SAFETY AND CONCERN FOR THE ENVIRONMENT ARE PREVALENT IN THE WORKPLACE AND IN THE COMMUNITIES WE SERVE.

Our commitment to work with all customers — consumers, businesses and industries — is continuing in an effort to provide the most cost effective, efficient level of service possible.

As a further demonstration of its commitment to the communities it serves, the Corporation continued to emphasize the use of Nova Scotia products and services in meeting its requirements. Total purchases during 1986-87 amounted to $303,971,000 of which $250,267,000, or 82.3 percent, was spent through manufacturers, producers, distributors and/or agents in Nova Scotia.

On the job, employees continue to give safety a priority.

Furthermore, employees have demonstrated a commitment to training to better carry out the diversified activities associated with the operation of an electric utility. Last year, 1,045 employees participated in formal programs put on by our Employee Development Department, ranging from first aid to driver-operation training to management skill development.

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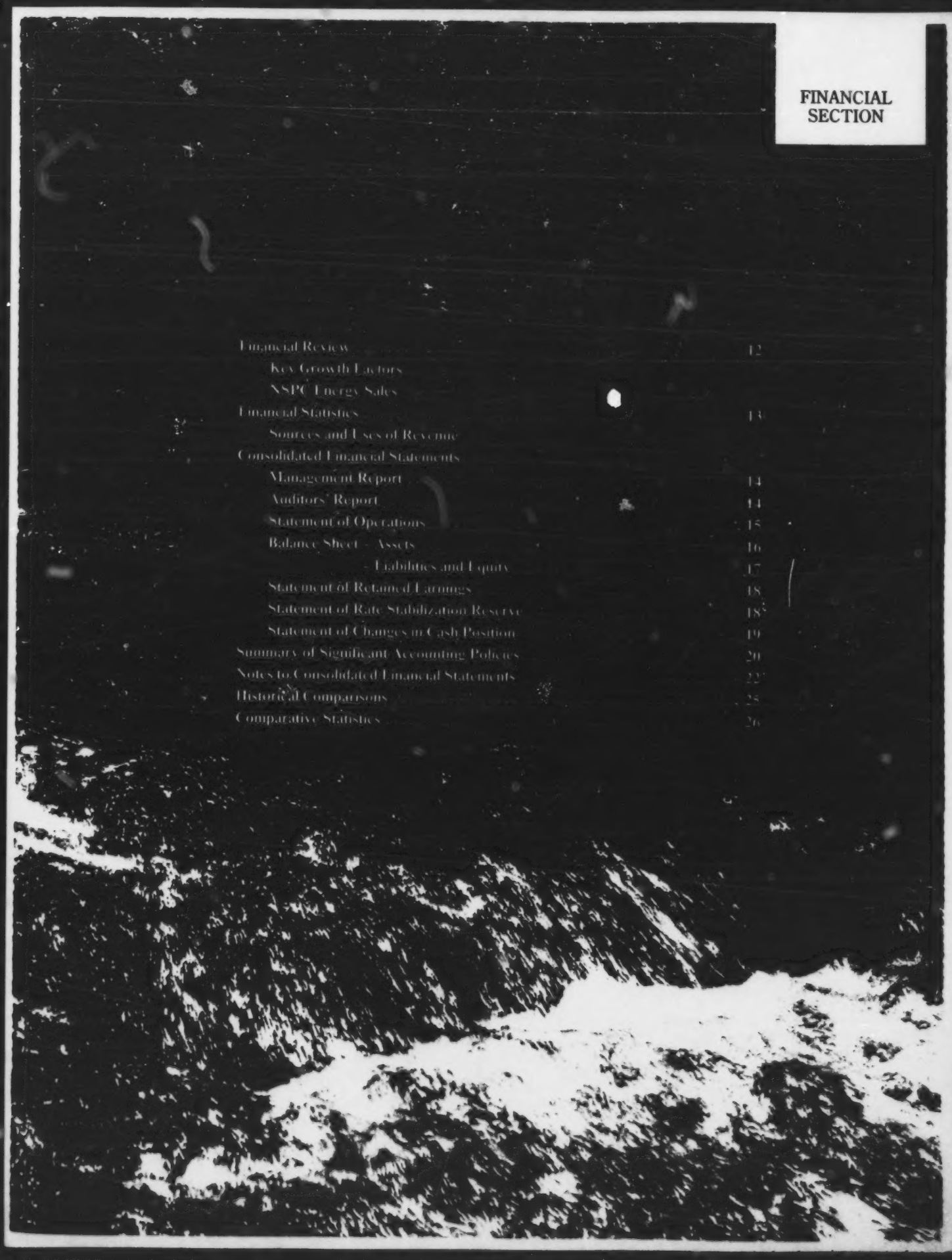


FINANCIAL REVIEW

In keeping with the corporate objective of protecting the consumer, electrical rates have not increased for the fourth consecutive year.

The Corporation experienced an operating loss of $9,277,000 in the 1986-87 fiscal year which will be funded from the Corporation's Rate Stabilization Reserve.

Electric revenue increased $9.4 million, or 2.0%, over fiscal 1985-86. Additional sales of 420 million kilowatt hours helped in-province electric sales to rise $22.5 million or 5.0%. Electric revenue from export sales of 882 thousand kilowatt hours which provided $40 thousand of revenue was a decrease of $13 million from 1985-86.

The total cost of operations for 1986-87 was $346.1 million, which is $16.4 million or 4.5% lower than the previous year. Decreases in fuel costs of $19.9 million were primarily due to the downward movement of international oil prices and the reduced usage of fuel due to the shutdown at Point Tupper for conversion to a coal-fired unit. Purchased power decreased by 107 million kilowatt hours or $4.2 million. These decreases were offset by increases of $7.7 million in non-fuel generation costs, operating, maintenance and general expenses, grants in lieu of taxes and depreciation.

The net requirement for 1986-87 was 7722 GW.h, an increase of 413 GW.h or 5.7% over 1985-86.

Gross thermal generation increased by 197 GW.h and supplied 82.0% of the total requirement while hydro production was only 89.0% of normal due to low runoff this year. Hydro generation accounted for 10.7% of the total requirement, 6.8% was purchased power, and the remainder was obtained through tidal power and gas turbines.

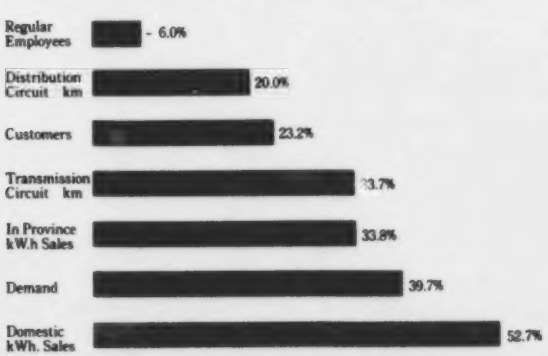
Cost of power-other costs have increased $1.9 million or 5.2% over the previous year. The main factor causing this increase is the increased maintenance program for generating plants this year.

Operating, maintenance and general expenses increased $4.7 million or 7.3%. The increase was due to an average wage increase of 3.0%, the development of a marketing strategy, an increase in insurance premiums, costs associated with the implementation of the Early Retirement Incentive Program, an increase in bad debt expense, an increased emphasis on employee development and general escalation of other costs.

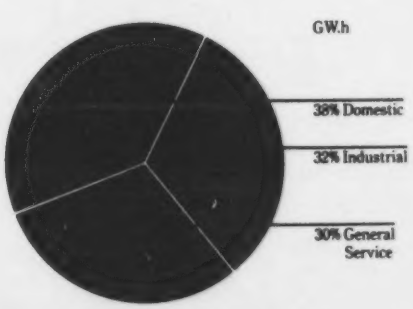
Depreciation totalled $48.4 million in 1986-87, $1.0 million or 2.1% higher than the prior year. The increase reflects transmission, distribution and general assets placed in service late in fiscal 1986.

Interest expense increased $5.9 million, or 4.1% over the prior year.

Key Growth Factors
Percentage Change 1978-1987



NSPC Energy Sales
Fiscal year ended March 31, 1987

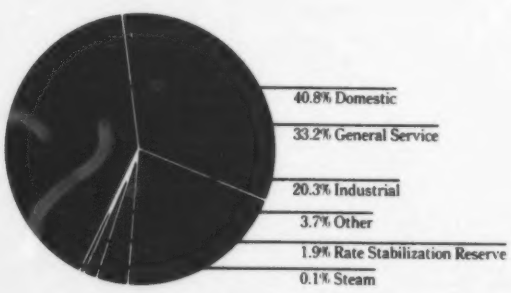


Financial Statistics

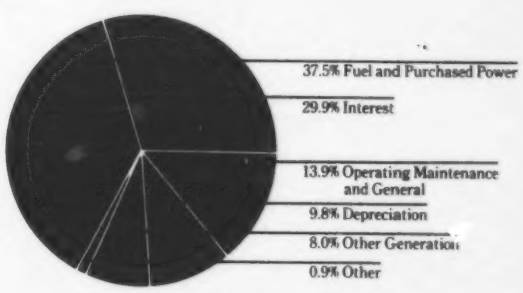
for the year ended March 31, 1987, with comparative figures for 1986
thousands of dollars

	1987	1986	Per Cent Change
Electric Revenue	**$476,056**	$466,665	2.0
Steam Revenue	**502**	19,047	(97.4)
Total Cost of Operations	**346,116**	362,566	(4.5)
Fuel	**173,397**	193,312	(10.3)
Purchased Power	**11,719**	15,910	(26.3)
Depreciation	**48,426**	47,447	2.1
Interest	**147,443**	141,575	4.1
Net Proceeds from Long-Term Borrowing	**166,569**	0	100.0
Net Additions to Fixed Assets	**120,066**	84,698	41.8
Net Loss	**9,277**	12,257	(24.3)

Sources of Revenue



Uses of Revenue



CONSOLIDATED FINANCIAL STATEMENTS

Nova Scotia Power Corporation

Consolidated Financial Statements

March 31, 1987

Management Report

All information, including the consolidated financial statements in the Annual Report of Nova Scotia Power Corporation, is the responsibility of management and has been approved by the Board of Directors. Financial information presented throughout this report is consistent with the data presented in the financial statements which are prepared in accordance with accounting principles generally accepted in Canada.

The Board of Directors carries out its responsibilities for the financial statements primarily through its Audit Committee, a majority of whom are not employees of the Corporation. The Audit Committee meets regularly with management, internal auditors, and the independent auditors all of whom have full and free access to the Committee.

The independent auditors are responsible for auditing the financial statements and giving an opinion thereon.

Auditors' Report

To the Board of Directors
Nova Scotia Power Corporation

We have examined the consolidated balance sheet of Nova Scotia Power Corporation as at March 31, 1987, and the consolidated statements of operations, retained earnings, rate stabilization reserve and changes in cash position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the Corporation as at March 31, 1987 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat Marwick

Chartered Accountants

Halifax, Canada
June 10, 1987

Consolidated Statement of Operations

for the year ended March 31, 1987, with comparative figures for 1986
thousands of dollars

	1987	1986
Revenue		
Electric — note 1	$476,056	$466,665
Steam	502	19,047
Other	7,724	6,172
	484,282	491,884
Cost of operations		
Power generated — fuel	173,397	193,312
— other	39,417	37,476
Power purchased	11,719	15,910
Operating, maintenance and general	68,534	63,849
Grants in lieu of taxes	4,623	4,572
Depreciation	48,426	47,447
	346,116	362,566
Earnings before interest	138,166	129,318
Interest — note 2	147,443	141,575
Net loss	$ 9,277	$ 12,257

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

as at March 31, 1987, with comparative figures for 1986
thousands of dollars

ASSETS

	1987	1986
Fixed assets		
Property, plant and equipment in service	**$1,643,320**	$1,583,562
Less accumulated depreciation	**501,985**	459,580
	1,141,335	1,123,982
Construction work in progress	**120,413**	66,185
	1,261,748	1,190,167
Current assets		
Cash	**80**	147
Short-term investments at cost	**1,395**	—
Accounts receivable	**45,811**	51,641
Unbilled revenue	**33,915**	31,637
Inventories at cost	**52,203**	52,156
Prepaid expenses	**1,690**	1,993
	135,094	137,574
Long-term receivables	**328**	384
Deferred charges less amortization		
Unrealized foreign exchange costs	**57,781**	70,941
Financing costs	**14,749**	12,532
Other	**5,103**	1,847
	77,633	85,320
	$1,474,803	$1,413,445

APPROVED ON BEHALF OF THE CORPORATION

Chairman

President and Chief Executive Officer

Consolidated Balance Sheet

as at March 31, 1987, with comparative figures for 1986
thousands of dollars

LIABILITIES AND EQUITY

	1987	1986
Long-term debt — note 3		
Bonds and debentures	**$1,473,029**	$1,354,092
Notes		
Province of Nova Scotia	**59,054**	60,073
Government of Canada	**46,574**	48,520
Other	**12,692**	18,447
	1,591,349	1,481,132
Less		
Payable within one year — note 3	**59,199**	54,304
Sinking funds	**275,877**	255,323
	335,076	309,627
	1,256,273	1,171,505
Current liabilities		
Bank indebtedness	**8,315**	18,414
Short term notes payable	**905**	14,441
Accounts payable and accrued charges	**37,712**	41,671
Customers' deposits and accrued interest	**1,205**	1,329
Accrued interest on long-term debt	**49,700**	41,010
Long-term debt payable within one year	**59,199**	54,304
	157,036	171,169
Deferred credits	**2,134**	2,134
Equity		
Contributed surplus	**13,327**	13,327
Rate stabilization reserve	**15,164**	24,441
Retained earnings	**30,869**	30,869
	59,360	68,637
	$1,474,803	$1,413,445

Commitments — note 4

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Retained Earnings

for the year ended March 31, 1987, with comparative figures for 1986
thousands of dollars

	1987	1986
Balance at beginning of year	**$ 30,869**	$ 30,869
Net loss	**9,277**	12,257
	21,592	18,612
Appropriation from rate stabilization reserve	**9,277**	12,257
Balance at end of year	**$ 30,869**	$ 30,869

Consolidated Statement of Rate Stabilization Reserve

for the year ended March 31, 1987, with comparative figures for 1986
thousands of dollars

	1987	1986
Balance at beginning of year	**$ 24,441**	$ 36,698
Appropriation to retained earnings	**9,277**	12,257
Balance at end of year	**$ 15,164**	$ 24,441

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

Consolidated Statement of Changes in Cash Position

for the year ended March 31, 1987, with comparative figures for 1986
thousands of dollars

	1987	1986
Operating activities:		
Net loss	$ (9,277)	$(12,257)
Items not requiring an outlay of funds:		
Depreciation	48,426	47,447
Amortization of deferred charges	3,763	8,280
Earnings on sinking funds	(22,331)	(19,163)
Working capital	8,473	16,201
Cash provided by operating activities	29,054	40,508
Financing activities:		
Proceeds from long-term debt less discount	166,569	—
Payments on long-term receivables	56	202
Repayment of long-term debt	(33,585)	(16,012)
Sinking fund payments	(14,302)	(14,494)
Decrease in deferred credits	—	(4,388)
Loss (gain) on redemption of bonds	493	(3,025)
Cash provided by (used in) financing activities	119,231	(37,717)
Investing activities:		
Net additions to fixed assets	120,066	84,698
Net increase in deferred charges	3,256	1,847
Cash used in investing activities	123,322	86,545
Increase (decrease) in cash position	24,963	(83,754)
Cash position (deficiency) at beginning of year	(32,708)	51,046
Cash position (deficiency) at end of year	$ (7,745)	$(32,708)

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

March 31, 1987

Consolidation

The consolidated financial statements include the accounts of Nova Scotia Power Corporation and its wholly-owned subsidiaries, Nova Scotia Light and Power Company, Limited and Eastern Light & Power Company Limited.

Regulation

The Corporation is a crown corporation of the Province of Nova Scotia engaged in the production and sale of electric energy and steam, and is regulated by the Board of Commissioners of Public Utilities for the Province of Nova Scotia pursuant to the Public Utilities Act.

Property, Plant and Equipment

The property, plant and equipment of the Corporation are recorded at original cost net of contributions in aid of construction. Expenditures for additions, replacements and improvements, which are comprised of direct labour, material, engineering, and related overhead costs, are capitalized whereas repairs and maintenance are charged to operations. Interest on funds used during construction is capitalized monthly at an interest rate which represents the effective cost of capital determined at the preceding fiscal year end. For property, plant and equipment replaced or renewed the original cost plus removal cost less salvage is charged to accumulated depreciation.

The excess of the Corporation's investment over the book value of subsidiaries and acquired power utilities was $30,197,000. This amount is being amortized on a straight line basis over terms ranging from 11-30 years. At March 31, 1987, the unamortized value included in the fixed assets of the Corporation was $11,568,000.

Depreciation is provided for by the Corporation on the straight line method, based on the estimated remaining service lives of its depreciable assets. The estimated average service lives for the major categories of plant in service are summarized as follows:

Functions	Average Life in Years
Hydraulic Generation	63.6
Steam Generation	29.7
Gas Turbine Generation	23.8
Transmission	39.8
Distribution	29.4
General Plant	17.0

Changes in the estimated service lives of fixed assets and in the significant assumptions underlying the estimates of fixed asset removal cost are subject to periodic review. Such changes are implemented on a remaining service life basis from the year the changes can be first reflected in electric service rates.

Depreciation expense for the year ended March 31, 1987, includes $1,195,000 representing amortization of the excess of investment over book value of acquired utilities.

Foreign Currency Translation

Foreign currency amounts are translated into Canadian funds substantially in accordance with the temporal method of foreign currency translation, whereby assets and liabilities so denominated are categorized as monetary or non-monetary items as follows:

(a) Monetary items:

Cash, other current assets and liabilities, sinking funds and long-term debt are converted to Canadian dollars at the rate of exchange prevailing at the balance sheet date. The resulting differences between the translation at the original transaction date and the balance sheet date that relates to long-term debt less sinking funds are shown on the balance sheet under deferred charges.

These costs are amortized to operations over the remaining life of the debt issue or the period over which the related sinking fund will retire the debt issue, whichever is less.

(b) Non-monetary items:

Fixed assets originally acquired in foreign currencies are translated to Canadian dollars at historical exchange rates.

(c) Revenue and expense items, including interest expense on long-term debt, are reflected in operations at the rate of exchange on the date of the transaction together with any other exchange gains or losses realized from transactions affecting current operations.

Sinking Funds

Sinking funds, including those in foreign currencies, consist of securities and cash held by the Corporation and trustees for the redemption of certain debt issues. Certain issues of bonds and debentures requiring annual sinking fund payments provide that the Corporation may satisfy its obligation by purchasing bonds or debentures on the open market at any time prior to the due date. Any discount or premium on such purchases will be recognized in income on the transaction date.

1. Electric Revenue

Electric service is provided to the Province of Nova Scotia and its agencies at the appropriate class rates as approved by the Board of Commissioners of Public Utilities for the Province of Nova Scotia.

2. Interest

thousands of dollars

	1987	1986
Interest on long-term debt	**$156,218**	$147,598
Amortization of financing costs	**2,153**	1,768
Interest on short-term borrowings	**1,302**	805
Foreign exchange costs realized	**18,302**	12,260
Amortization of unrealized foreign exchange costs	**1,689**	6,754
Other	**675**	263
	180,339	169,448
Less		
Interest charged to construction	**8,326**	2,849
Sinking fund earnings	**22,331**	19,163
(Loss) gain on redemption of bonds	**(493)**	3,025
Other investment income	**2,732**	2,836
	32,896	27,873
	$147,443	$141,575

3. Long-Term Debt

thousands of dollars

Long-term debt which is guaranteed by the Province of Nova Scotia is expressed in Canadian dollars. The rates in effect at balance sheet date summarized by years of maturity and by currency payable are as follows:

Years of Maturity	1987 Principal Outstanding			1987 Weighted Average Coupon Rate	1986 Principal Outstanding	1986 Weighted Average Coupon Rate
	Canadian	Foreign	Total	%	Total	%
1987	$ —	$ —	$ —		$ 48,732	
1988	35,994	10,789	**46,783**		49,252	
1989	11,240	—	**11,240**		13,670	
1990	5,413	45,679	**51,092**		43,838	
1991	19,117	—	**19,117**		19,117	
1992	287,635	69,368	**357,003**		—	
1-5 Years	359,399	125,836	**485,235**	9.75	174,609	9.62
6-10 Years	121,369	57,163	**178,532**	11.47	304,934	11.59
11-15 Years	271,824	104,408	**376,232**	9.81	332,466	9.53
16-20 Years	449,738	—	**449,738**	11.63	559,405	11.21
21-25 Years	3,729	97,883	**101,612**	9.60	109,380	9.58
26-30 Years	—	—	**—**	—	338	7.42
	$1,206,059	$385,290	**$1,591,349**	10.48	$1,481,132	10.60
Currency payable:						
Canadian dollars			**$1,206,059**	11.19	$1,054,949	11.17
United States dollars			**305,133**	9.05	356,312	9.24
Swiss francs			**69,368**	4.88	56,528	6.75
Deutsche marks			**10,789**	7.00	13,343	7.00
			$1,591,349	10.48	$1,481,132	10.60

Long-term maturities and sinking fund requirements, including those in foreign currencies translated to Canadian currency at March 31,1987, are as follows:

Year Ending March 31	
1988	**$ 59,199**
1989	**26,871**
1990	**65,308**
1991	**21,739**
1992	**306,378**
	$479,495

4. Commitments

(a) As at March 31, 1987, the Corporation was constructing generation, transmission and other facilities estimated to cost approximately $229.0 million of which approximately $180.2 million has been expended and an additional $20.7 million has been committed under contract.

(b) The Corporation's regular employees are covered by the Public Service Superannuation Plan of the Province of Nova Scotia, which is a defined benefit plan under which contributions are made equally by the Corporation and the employees.

The Corporation provides pension benefits to employees of acquired utilities, additional to those which are payable under the existing plans for years of service prior to acquisition.

Pension costs equal to the Corporate funding contributions, plus amortization of additional pension benefit obligations to be funded over the expected average remaining service life of the employee group covered by the plan, form the basis for the annual expense in the financial statements of the Corporation.

Actuarial valuations of Pension Plan Funds are carried out every three years and provide an estimate of fund liabilities at a point in time, calculated on the basis of various assumptions with respect to pension plan costs and rates of return on investments. The most recent actuarial valuation, completed as of December 31, 1983, indicates that $12.0 million of past service liability under one of these plans is unfunded. The annual requirement being paid to fund this past service cost is $1.2 million for 15 years.

5. Subsequent Event

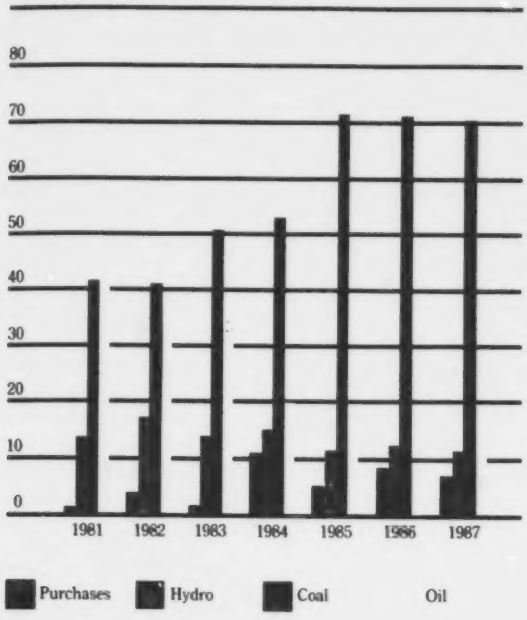
On June 8, 1987, the Corporation made a public savings bond offering to residents of Nova Scotia. This issue, due July 7, 1992, bears interest at 9¼% and is redeemable in whole or in part on an annual basis at par at the option of the holder.

On June 8, 1987, the Corporation also made a public debenture offering to residents of Nova Scotia. This debenture issue, due July 7, 1997, bears interest at 10¼% and is not redeemable prior to maturity except in the event of the death of the registered owner.

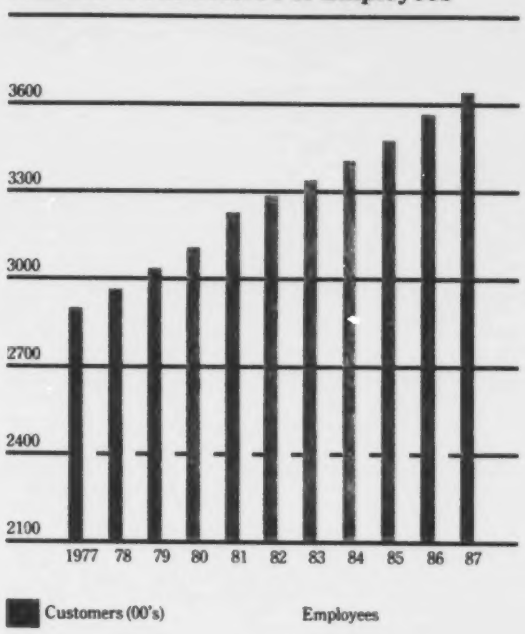
6. Related Party Transactions

Related party transactions are disclosed elsewhere in the consolidated financial statements.

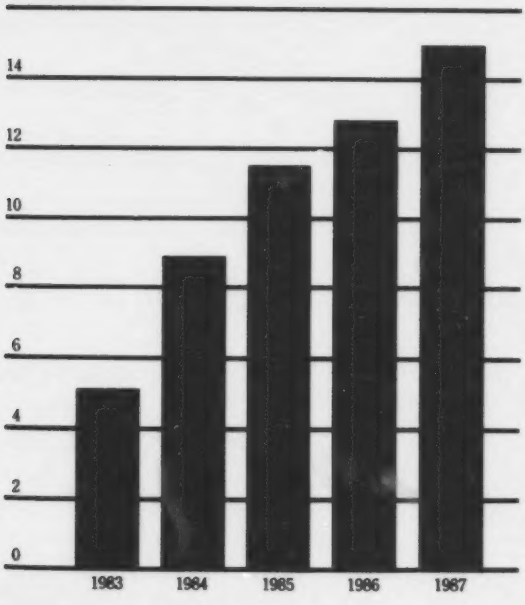
Sources of Energy



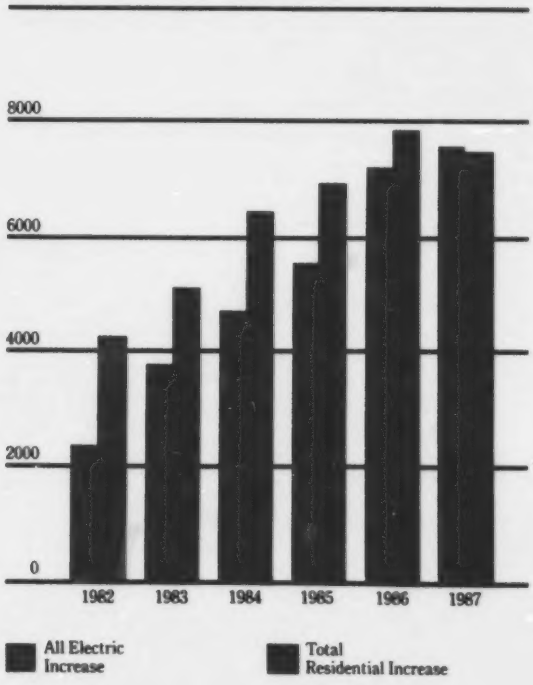
Number of Customers Per Employees



Productivity Gains
Cumulative



Residential Services Growth



Comparative Statistics

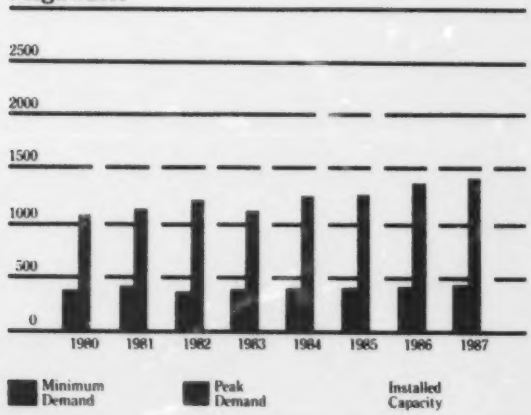
for twelve month period ended March 31

	1987	1986	1985	1984	1983
Electric Energy Generated & Purchased (Thousand kW.h):					
Generated (net)	**7,168,874**	7,037,360	7,002,376	6,016,378	6,240,901
Purchased	**554,223**	661,460	409,898	772,593	128,774
	7,723,097	7,698,820	7,412,274	6,788,971	6,369,675
Losses & Internal Use	**715,220**	722,371	677,913	542,470	547,363
Total Electric Energy Sold	**7,007,877**	6,976,449	6,734,361	6,246,501	5,822,312
Energy Sales Billed (Thousand kW.h):					
Domestic Service	**2,659,872**	2,468,203	2,337,509	2,102,796	1,988,127
General Service	**1,931,380**	1,845,663	1,811,013	1,685,649	1,638,467
Industrial Power	**2,097,916**	1,981,854	2,045,128	1,990,024	1,904,744
Municipalities	**212,156**	198,392	191,199	182,123	176,331
Unmetered Services	**74,155**	72,677	72,928	71,862	70,749
Total In-Province Billed Energy Sales	**6,975,479**	6,566,789	6,457,777	6,032,454	5,778,418
Increase (Decrease) in Unbilled Sales	**31,516**	19,986	(132,114)	21,226	15,666
Grid Sales	**882**	389,674	408,698	192,821	28,228
Total Electrical Energy Sales	**7,007,877**	6,976,449	6,734,361	6,246,501	5,822,312
Electric Revenue Billed (Thousand $):					
Domestic Service	**$200,135**	$187,241	$179,173	$160,186	$119,294
General Service	**151,912**	145,913	143,504	132,656	101,600
Industrial Power	**100,008**	98,284	99,969	96,085	73,420
Municipalities	**10,895**	10,249	9,922	9,479	7,299
Unmetered Service	**10,788**	10,487	10,457	10,124	7,815
Total In-Province Electric Revenue	**473,738**	452,174	443,025	408,530	309,428
Increase (Decrease) in Unbilled Revenue	**2,278**	1,362	(9,758)	5,778	5,741
Grid Sales	**40**	13,129	14,388	5,375	831
Total Electric Revenue	**$476,056**	$466,665	$447,655	$419,683	$316,000
Average Unit Revenue per kW.h Billed					
Domestic Service	**7.52¢**	7.59¢	7.67¢	7.62¢	6.00¢
General Service	**7.87¢**	7.91¢	7.92¢	7.87¢	6.20¢
Industrial Power	**4.77¢**	4.96¢	4.89¢	4.83¢	3.85¢
Municipalities	**5.14¢**	5.17¢	5.19¢	5.20¢	4.14¢
Unmetered Service	**14.55¢**	14.43¢	14.34¢	14.09¢	11.05¢
All Classifications Combined	**6.79¢**	6.89¢	6.86¢	6.77¢	5.35¢
Number of Employees	**2,383**	2,450	2,454	2,458	2,521
Number of Customers	**364,673**	356,764	348,146	341,006	334,205
km of Transmission Lines (69 kV & Over)	**5,159**	5,009	4,945	4,765	4,631
km of Distribution Lines (36 kV & Under)	**22,620**	21,972	21,694	21,595	20,812
Cost of Fuel (Thousand $) — Coal	**$144,629**	$146,971	$136,182	$ 78,420	$ 71,021
Oil	**28,768**	46,341	74,929	100,467	118,856
Total	**$173,397**	$193,312	$211,111	$178,887	$189,877

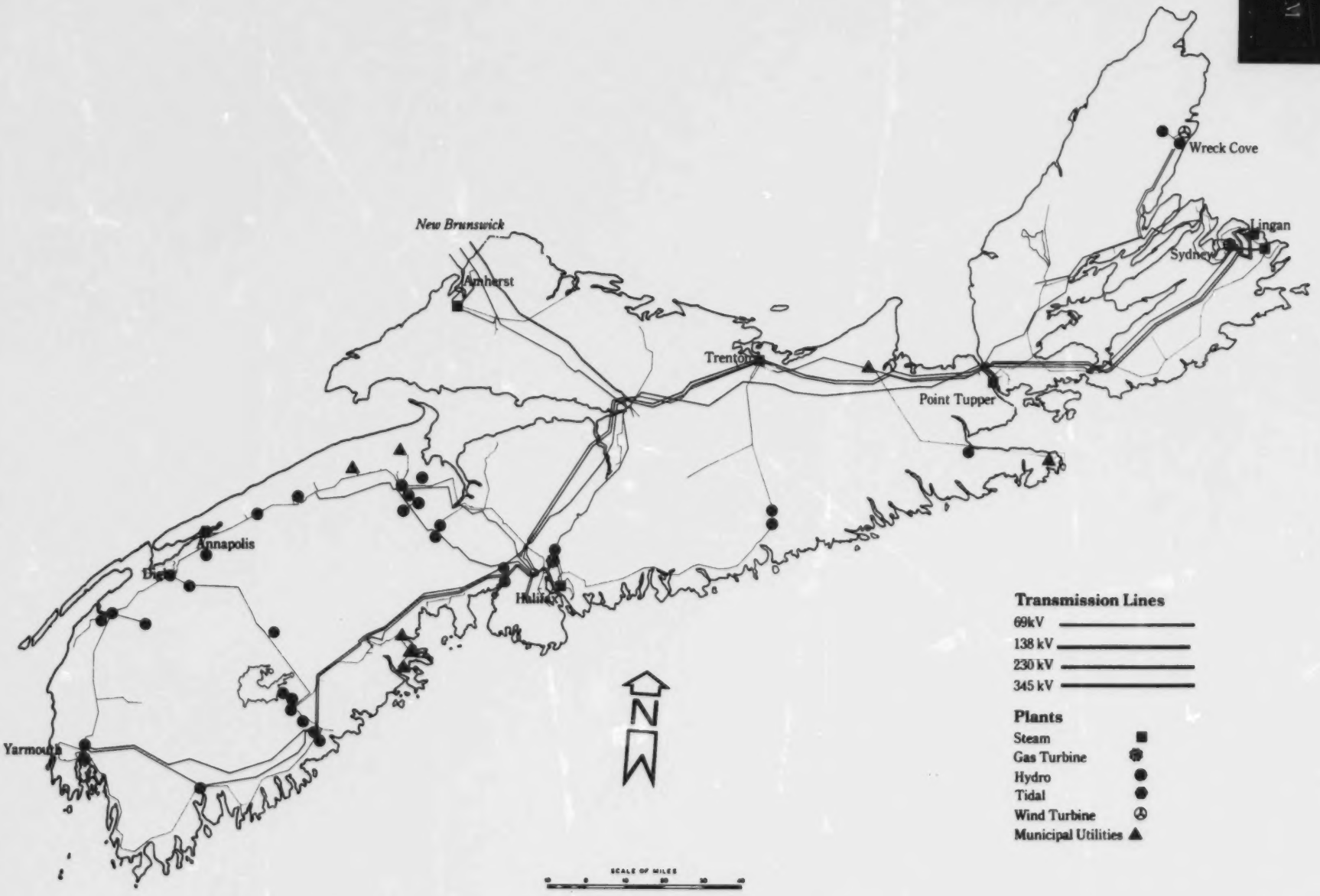
GENERATION STATISTICS

	Installed Capacity in KW	1986-87 Generation (KWh × 1000)
Steam		
Lingan	601,800	4,522,490
Tufts Cove	350,000	892,207
Trenton	190,000	1,002,708
Glace Bay	96,000	240,274
Maccan	15,000	15,352
	1,252,800	6,673,031
Gas Turbine	179,845	4,145
Hydro		
Total 32 Plants	361,902	872,122
Tidal	19,458	32,712
Wind Turbine	300	57
TOTAL CAPACITY	1,814,305	
TOTAL GENERATION		7,582,067
Less: Station Service		413,193
NET GENERATION		7,168,874
Purchases		554,223
Inter-provincial sales to NBEPC		(882)
NET REQUIREMENT		7,722,215

Generation Statistics
Megawatts



SYSTEM MAP


New Brunswick
Amherst
Trenton
Point Tupper
Wreck Cove
Lingan
Sydney
Annapolis
Halifax
Yarmouth
N
W
SCALE OF MILES
Transmission Lines
69kV
138 kV
230 kV
345 kV
Plants
Steam
Gas Turbine
Hydro
Tidal
Wind Turbine
Municipal Utilities